

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 RSC-01 CIEP-02 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 AGR-10 TAR-01

PA-02 PRS-01 USIA-15 /079 W
----- 010702

R 032007Z FEB 75

FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 8220
INFO AMEMBASSY BONN

UNCLAS EC BRUSSELS 00954

PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, GW

SUBJECT: PROPOSED EC WHEAT TARGET AND INTERVENTION PRICES

REF: (A) BONN 01747 (B) EC BRUSSELS 9383 (C) EC BRUSSELS 9618

1. THE PRICE INCREASES REFERRED TO IN REF. A INDEED WERE PROPOSED BY THE EC COMMISSION AND WERE REPORTED IN PERCENT TERMS INF REF B IN NOV. 1974 AND IN UNITS OF ACCOUNT IN REF. C IN DEC. 1974. A TEN PERCENT INCREASE IN THE SOFT WHEAT TARGET PRICE WOULD BRING IT UP TO 140.72 U.A. PER METRIC TON. A NINE PERCENT INCREASE IN THE BASIC INTERVENTION PRICE WOULD INCREASE IT TO 125.93 U.A. PER METRIC TON. THE SPREAD WOULD BE 14.79 U.A., AS CORRECTLY REPORTED IN REF. A. COMPARED TO THE SPREAD OF 12.40 U.A. IN 1974/75 PRICES, THE SPREAD IN THE PROPOSED 1975/76 PRICES WOULD INCREASE BY ABOUT 19 PERCENT. HALF OF THIS INCREASE IS ACCOUNTED FOR BY THE TARGET AND INTERVENTION PRICE INCREASES AND THE OTHER HALF BY THE NEW DIFFERENTIATION IN THE TWO PRICES.

2. THE EFFECT OF WIDENING THE SPREAD BETWEEN THESE TWO PRICES IS TO
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INCREASE THE THEORETICAL MARGIN OF PREFERENCE OF COMMUNITY

WHEAT. THE MARGIN IS "THEORETICAL" BECAUSE IT IS A FUNCTION OF THE INTERNAL MARKET PRICE, WHICH IS A VARIABLE. THE MARGIN OF PREFERENCE IS GREATEST WHEN INTERNAL MARKET PRICES ARE AT THE INTERVENTION PRICE LEVEL, AND IT DECREASES AS INTERNAL MARKET PRICES APPROACH THE TARGET PRICE-- PROVIDING WORLD MARKET PRICES ARE BELOW THE TARGET PRICE.

3. A WIDER MARGIN OF PREFERENCE WOULD AFFECT ALL WHEAT, NOT JUST QUALITY WHEAT, AND WOULD FAVOR EC WHEAT IN THE INTERNAL EC MARKET BECAUSE IT WOULD DECREASE THE COMPETITIVENESS OF WHEAT FROM THE US AND OTHER THIRD COUNTRY SUPPLIES-- ALL OTHER THINGS BEING EQUAL. RAISING THE INTERVENTION(SUPPORT) PRICE WOULD SIMILARLY ENCOURAGE THE PLANTING OF ALL QUALITIES OF WHEAT. BUT IT IS DIFFICULT TO EVALUATE THE EFFECT EITHER OF AN INCREASE IN THE INTERVENTION PRICE PER SE OR OF THE DIFFERENTIATED INCREASE IN THE TWO PRICES, (10 PERCENT FOR THE TARGET AND ONE PERCENT FOR THE INTERVENTION PRICE). SUCH INTENTIONS WOULD BE INFLUENCED BY, AMONG OTHER THINGS, FARMERS' ESTIMATES OF THE MARKET PRICE FOR THEIR WHEAT COMPARED TO THE SUPPORT PRICE.

3. THESE PRICE INCREASES HAVE BEEN TAKING PLACE STEADILY SINCE THE CAP WAS INSTITUTED AND COMMUNITY PREFERENCE HAS BEEN INHERENT IN THE CAP. BECAUSE OF THE IMPACT ON DOMESTIC PRODUCTION AND IMPORTS. THE USG HAS CONSISTENTLY OPPOSED BOTH THE LEVEL OF PRICES AND THE OPERATION OF THE CAP SYSTEM.

5. IT IS NOT YET CLEAR WHETHER THE DECISION ON PRICES WILL BE MADE AT THE FEBRUARY 10-1 "MARATHON" MEETINGS OF THE COUNCIL OF AGRICULTURAL MINISTERS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WHEAT, PRICE TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ECBRU00954
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750039-0669
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750279/aaaacstj.tel
Line Count: 91
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 BONN 01747, 75 EC BRUSSELS 9383, 75 EC BRUSSELS 9618
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by MarshK0>; APPROVED <12 JAN 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED EC WHEAT TARGET AND INTERVENTION PRICES
TAGS: EAGR, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006